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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 7, Issue 11

June 15, 2012

Canada

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National Overview

Canadian Retail Gasoline Prices Reach Lowest Level since February

For the week ending June 12, 2012, Canadian average retail gasoline prices decreased by 0.1 cent per litre for a second straight week to $1.27 per litre—this represents a decline of nearly 3 cents per litre from two weeks ago. Prices have reached a four-month low and are below last year's level by nearly 1 cent per litre.

Diesel fuel prices declined by almost 3 cents per litre from the previous week to $1.20 per litre, while furnace oil prices decreased by 2 cents ending at $1.14 per litre. Compared to a year ago, prices for diesel and furnace oil are 5 cents and 1 cent per litre lower, respectively.

Retail pump prices were pushed downward in part by lower North American wholesale gasoline prices which reflected the weakness in the underlying price for world crude oil.

Recent Developments

- **Crude Markets Reversed their Upward Course**: In April and by early May, futures prices had fallen $10-12 per barrel amid disappointing economic data for the US and Europe and an apparent easing of tensions between the international community and Iran. Brent crude was last trading near a three-month low of $113 per barrel, with WTI at $97 per barrel. (Source: International Energy Agency http://omrpublic.iea.org/)

- **Near Normal 2012 Atlantic Hurricane Season**: According to the National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center, for the six-month hurricane season beginning June 1, there is a 70% chance of 9 to 15 named storms in the Atlantic Basin, of which 4 to 8 may strengthen to hurricane level. Of those, 1 to 3 may become major hurricanes. Tropical storms and hurricanes can temporarily disrupt the U.S. oil and natural gas supply chain (producing fields, gathering, processing, refining, and transportation), especially in the US Gulf Coast region. (Source: NOAA, http://www.eia.gov/todayinenergy/detail.cfm?id=6530)

- **Domestic Crude Oil Production Up 4%**: Production of crude oil and equivalent hydrocarbons increased 4% to 15.2 million cubic meters in the first three months of 2012 compared to the same period last year. Exports increased 12% to 12 million cubic meters. About 80% of Canada's total domestic production went to the export market compared to 74% a year earlier. Imports fell 24% to 3.2 million cubic meters. (Statistics Canada, The Daily, http://www.statcan.gc.ca/daily-quotidien/120611/dq120611a-eng.htm

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

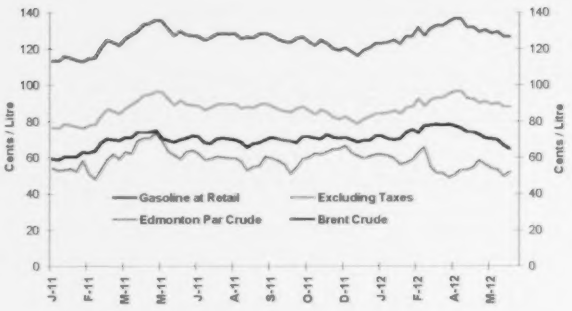
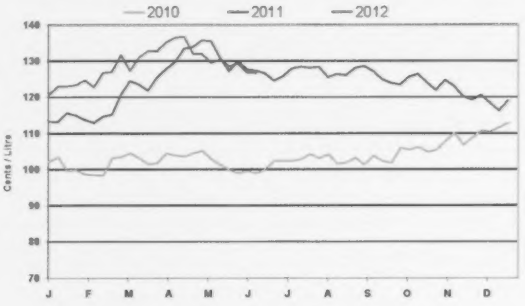


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-06-12	Previous Week	Last Year
Gasoline	126.7	-0.1	-0.6
Diesel	119.6	-2.5	-5.1
Furnace Oil	114.4	-1.6	-0.6

Source: NRCan

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Retail Gasoline Overview

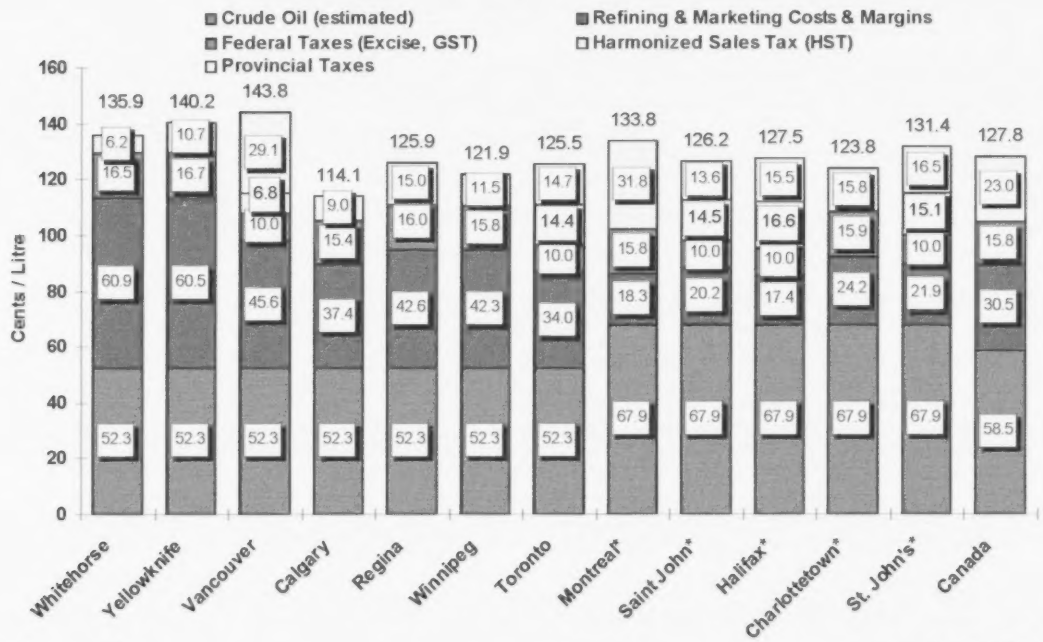
The **four-week average** regular gasoline pump price in selected cities across Canada was $1.28 per litre for the period ending June 12, 2012. This is a decrease of nearly 2 cents per litre from the last report on June 1, 2012, and it represents a slight decrease of 0.2 cent per litre compared to the same period in 2011.

The **four-week average** crude oil price component of gasoline was down 3 cents from two weeks ago and registered at 59 cents per litre—6 cents per litre lower than during the same period in 2011.

Retail gasoline prices in Eastern centres decreased on average by 2 cents per litre compared to the last report two weeks ago, and ranged from $1.24 per litre to $1.34 per litre. Prices in Western centres decreased, on average, by less than 1 cent per litre and ranged from $1.14 per litre to $1.44 per litre.

At the national level, refining and marketing costs rose by less than 2 cents per litre from the previous report of two weeks ago to 31 cents per litre.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (May 22 to June 12, 2012)



Source: NRCan

** Regulated Markets*

Factors Affecting Gasoline Prices

Traditionally, with the arrival of the summer driving season, retail gasoline prices are gradually pushed up by higher demand for gasoline. Since the beginning of the year, U.S. gasoline inventories have declined to their five-year average inventory level. Overall, a weak U.S. economy has reduced the demand for oil products and helped moderate the rise in gasoline prices.

This is also the time of year when refiners, having sufficient inventories for the summer, start their planned refinery maintenance. Occasionally, unplanned shutdowns can occur resulting in lower production constraining supply. As inventories decline and the summer demand for gasoline increases, refinery margins may increase. As inventories start declining, wholesale gasoline prices are usually pushed up—even if crude oil prices stabilize or decline. In turn, higher wholesale prices lead to higher retail gasoline prices—usually in fairly short order—because service station operators can not absorb higher wholesale prices and have to pass on these higher prices to the consumer.

Wholesale Gasoline Prices

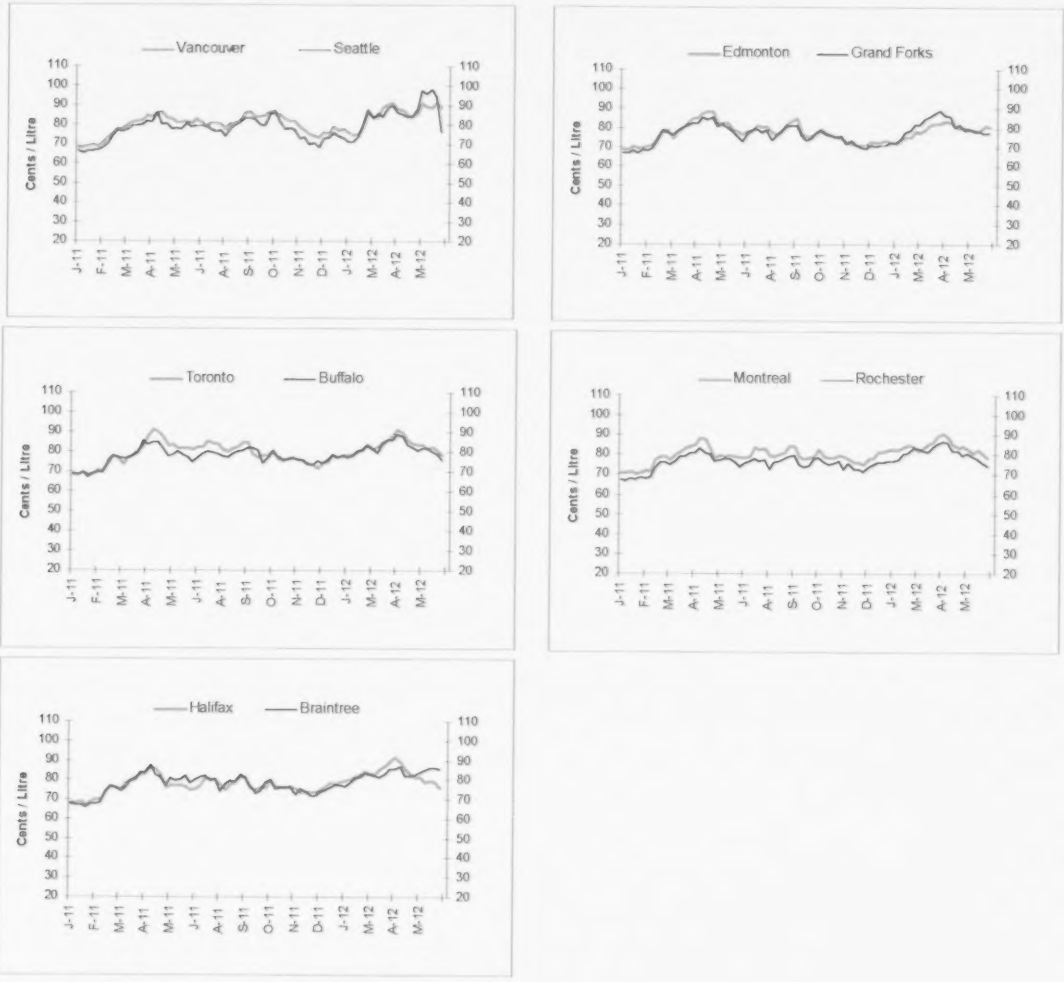
For the **week of June 7, 2012**, compared to the previous week, wholesale gasoline price changes ranged from a decline of 18 cents per litre to an increase of less than 1 cent per litre.

In the Eastern markets of Canada and the United States, wholesale gasoline prices, compared to the previous week, registered decreases ranging from less than 1 cent per litre to 3 cents per litre. Prices for the period ended in the 74 to 86-cent-per-litre range.

Western wholesale gasoline prices ended in the range of 76 to 89 cents per litre with changes ranging from a decline of 18 cents per litre to an increase of nearly 1 cent per litre. Supply constraints from the refinery outage in Ferndale, Washington, noted in Issue 9 of Fuel Focus, contributed to the high prices in the last five weeks. Once the outage corrected, prices dropped.

Overall, in the last four weeks, prices have declined in most selected centres in the range of 2 to 21 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending June 7, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

Gasoline Refining and Marketing Margins

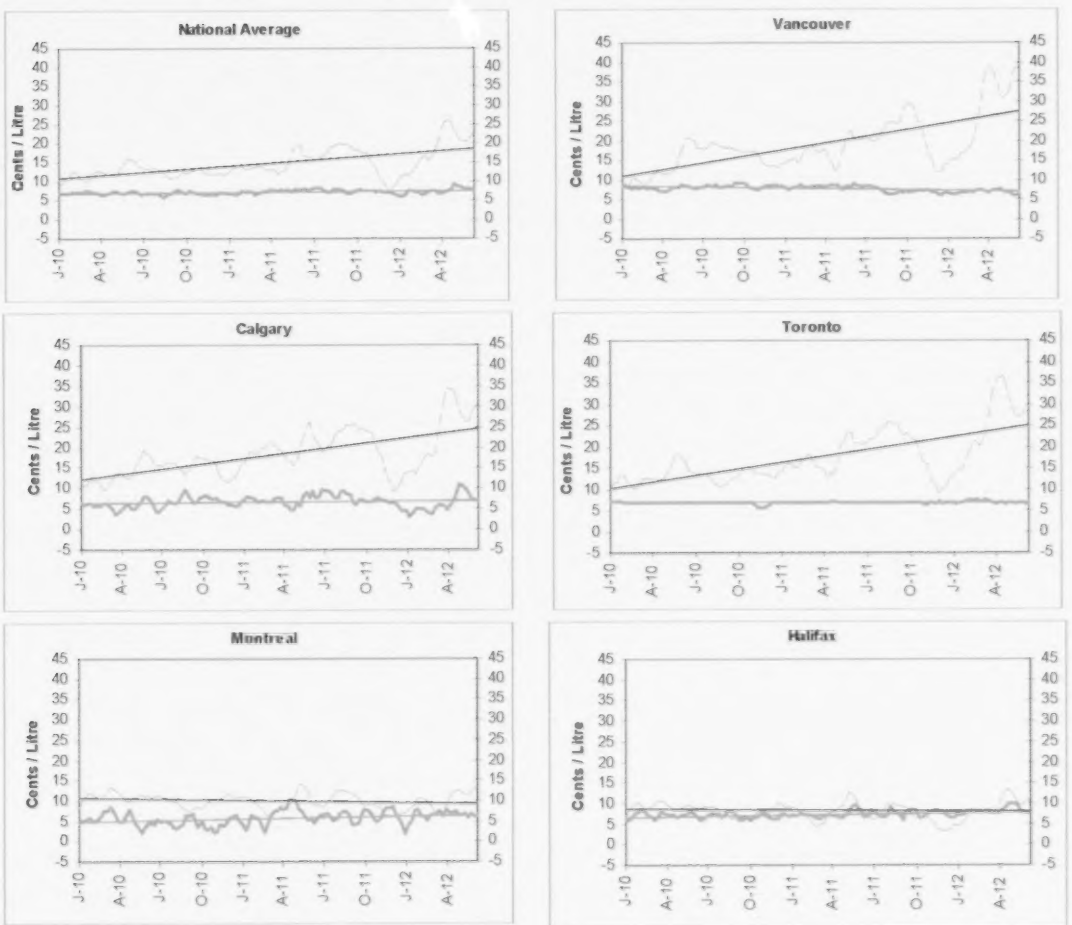
Four-week rolling averages are used for gasoline refining and marketing margins.

Refining margins for gasoline have fluctuated upward in the first four months of 2012. The upward movement is in part due to the steep decline in the Edmonton Par crude price which is used in our methodology to calculate the refining margins from Toronto and points west. As shown in Figure 6, Edmonton Par has dropped more significantly than WTI and Brent.

Gasoline refining margins moved upward until recently, which is an indication that increases in wholesale gasoline prices in Canada, which are influenced by the North American markets, have been more significant than increases in crude oil prices.

The marketing margins continue to fluctuate in specific centres as these movements are influenced by local market conditions. Nationally, the trend line indicates that marketing margins remain around 7.5 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending June 12, 2012
------- Refining Margin —— Marketing Margin



Source: NRCan

Crude Oil Overview

Monthly WTI and Brent Prices Lowest since October and December, Respectively

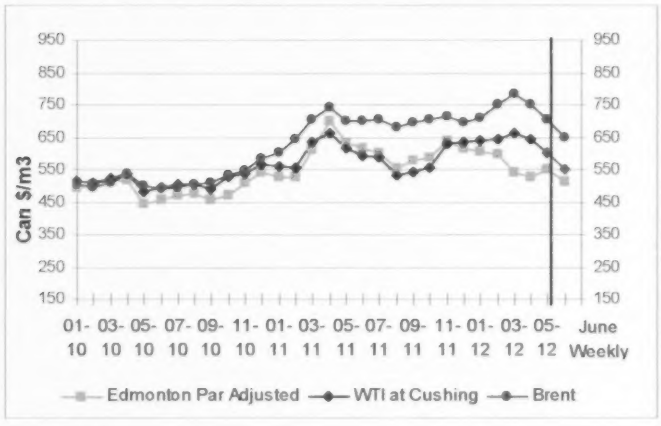
For the week ending June 8, 2012, prices for the three marker crudes averaged between $512/m^3$ and $647/m^3$, (US$79 to US$99 per barrel). While the price gap between WTI and Brent remains, the gap it between Edmonton Par and WTI has closed significantly.

The price discount between WTI, Edmonton Par and Brent crude oil continues to persist. Various factors in this are: a sluggish North American economy affecting oil demand, and the transportation bottlenecks impacting the movement of mid-continent crude oil to the Gulf Coast.

Media reported that the Irving Oil refinery in Saint John, New Brunswick received crude oil from the US mid-West.

Oil ministers of the Organization for Petroleum Exporting Countries (OPEC) are expected to meet by mid-June in Vienna. Saudi Arabia is under pressure from other members to reduce production as the OPEC crude oil price basket has fallen below US$100 per barrel.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-06-08		Change From:			
			Previous Week		Last Year	
	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl	$Can/ m^3	$US/ bbl
Edmonton Par	512.44	78.80	+1.80	-0.02	-96.17	-20.31
WTI	549.24	84.44	-15.81	-2.64	-64.86	-15.57
Brent	646.56	99.40	-21.35	-3.53	-72.68	-17.73

Source: NRCan

Summer Energy Outlook 2012

According to the National Energy Board *Summer Energy Outlook for 2012* released in May 2012, West Texas Intermediate (WTI) is expected to average around US $100 per barrel from May to October. Price discounts of WTI relative to world benchmark Brent crude of around US$15 per barrel are expected to continue due to supply and demand imbalances and pipeline bottlenecks in North America.

Canadian retail prices for regular gasoline are forecast to average $1.20 to $1.35 per litre. U.S. commercial gasoline inventories are near the five-year average. While demand grows in emerging economies, a decline is forecast in 2012 for North America, Japan and Europe, which could have a moderating effect on prices over the summer.

World oil markets are currently well-supplied, including ample OECD commercial inventories of crude oil and petroleum products. Oil market instability continues, driven by the European financial crisis and overall uncertain global economic outlook, in addition to supply security concerns related to ongoing geopolitical tensions in the Middle East and North Africa.

Source: NEB, http://www.neb-one.gc.ca/clf-nsi/rnrgynfmtn/nrgyrprt/nrgytlk/tlksmmr2012/tlksmmrsmmr-eng.html